

Earned Sick Time Study

A survey of small Vermont employers

Agency of Commerce & Community Development
and Vermont Department of Labor
Economic and Labor Market Information Division
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Introduction

Act 69 was passed and signed during the 2015-2016 Vermont legislative session requiring Vermont employers to provide Earned Sick Time (EST) to their Vermont employees. The legislation has a phase-in period providing a delay of one year for “small” employers.

Employees who must receive earned sick time are generally those who:

- Are over the age of 18
- work an average of at least 18 hours per week
- and are expected to work for the same employer more than 20 weeks annually

These employees must accrue leave at a rate of at least 1 hour of EST for every 52 hours worked. The law goes into effect for employers with more than 5 full-time Vermont employees on January 1st, 2017. On January 1st 2018, the law will expand to include all Vermont employers. In the first two years, the law requires that employers allow accrual of at least 24 hours. After two years, the accrual limit expands to 40 hours.

If an employer already offers leave which meets or exceeds the requirements of the law, they do not need to provide additional leave; however, sick time provided must be recorded to ensure compliance with Vermont law. For more detail about the requirements of the EST law, visit the Vermont Department of Labor’s website at <http://labor.vermont.gov/legal-information/>.

In order to build a better understanding of the legislation’s impact, Act 69 directs the Vermont Department of Labor and the Agency of Commerce and Community Development to conduct a survey of employers in Vermont. The survey captured data about the current offerings of EST by small employers, and possible changes to business practices to accommodate the new law.

Note: For the purpose of this survey, and as defined in legislation,

Small employers are those firms with 5 or fewer full-time employees

Full-time employees are those averaging more than 30 hours per week

Part-time employees are those averaging between 18 and 30 hours per week

Highlights of the Survey

- 53.8% of respondents offer some earned sick time to full-time employees
- 17.1% reported offering some earned sick time to part-time employees
- More than half (53.6%) of those surveyed were unfamiliar with the law prior to the survey
- 34.6 % of respondents stated they understand the law “somewhat” or “very well”
- Participating employers reported higher levels of expected changes post-implementation of the EST law in regards to operational costs and employee absences
 - 42.9% of respondents expect operational costs to increase “slightly” or “greatly”
 - 26.8% of respondents expect employee absences to increase
- The three most common responses to offset anticipated increases to operational costs were: a reduction in future pay increases to employees; higher prices; and reduced profit margins
- Of those who offer sick-leave, 33.5% report not tracking leave utilization

Summary of Survey Results

The results presented here are based on survey responses from 3,364 employers with five or fewer full-time employees. Some percentages may not add to 100% due to rounding, or when multiple responses are possible. A detailed methodology section is at the end of this report.

Frequency of sick leave benefit

Among employers who currently have five or fewer full-time employees, just over half (50.5%) report currently offering at least 5 days of earned sick leave per year to full-time employees. An additional 17.8% report offering a smaller amount of earned sick leave.

*Table 1: Amount of sick-leave offered to full-time employees**

Statements	Count of Employers	Percent
5 or more days	1,338	50.5%
Less than 5 days	471	17.8%
None	839	31.7%
Total Respondents	2,648	100.0%

*Among employers with five or fewer full-time employees.

Earned sick leave is far less common for part-time employees. Only 34% of small firms with part-time employees report currently offering this benefit to part-time workers

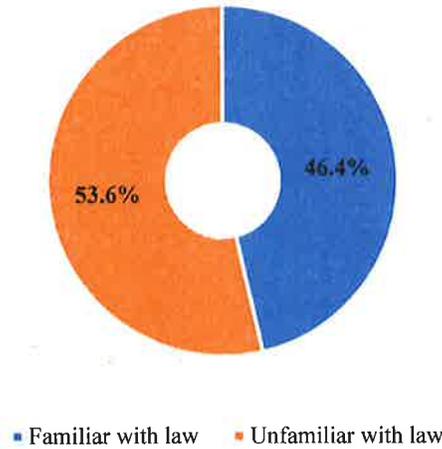
*Table 2: Amount of sick-leave provided to part-time employees**

Statements	Count of Employers	Percent
5 days or more	310	18.5%
Less than 5 days	264	15.8%
None	1,102	65.8%
Total Respondents	1,676	100.0%

*Among small employers with at least one part-time employee where part-time employees are those averaging between 18 and 30 hours per week

Employer Awareness

Figure 1: Percent of employers familiar with the law prior to the survey.



n = 3,355

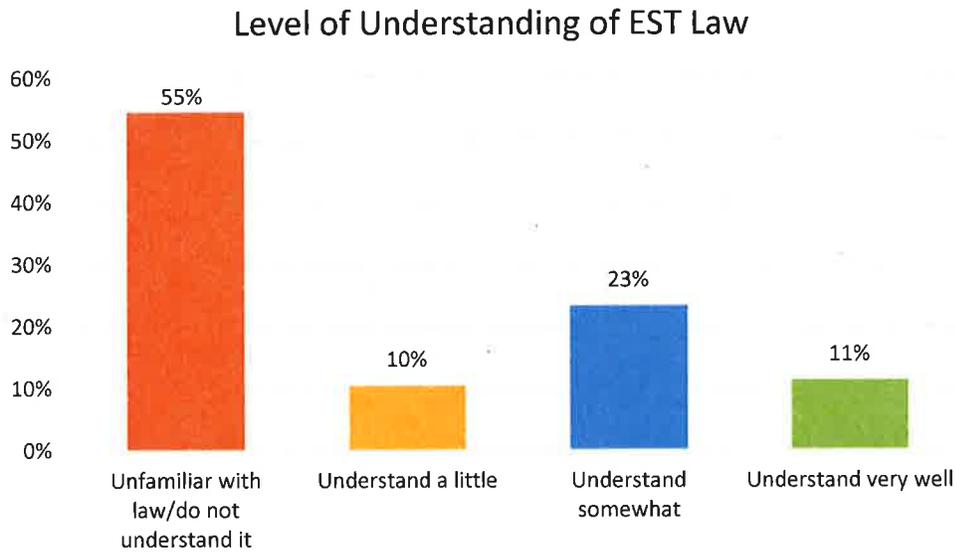
Only 46% of respondents indicated they were familiar with the law. Over half were not familiar with the law prior to participating in the VDOL/ACCD survey. Among those familiar with the law the most common source of information was the news media (46.5%) followed by the State of Vermont (25.7%).

Table 3: Primary source of information about the sick time law. *

Answer Choices	Count of Employers	Percent
News media	733	46.5%
State of Vermont	405	25.7%
Legal counsel, payroll processor, bookkeeper, accountant or other service provider	176	11.2%
Trade association or chamber of commerce	109	6.9%
Other (please specify)	85	5.4%
Other business owners	67	4.3%
Total Respondents	1,575	100%

*Responses include only those who had heard about the law prior to the survey.

Figure 2: Percent of employers by how well they understood the sick time law.

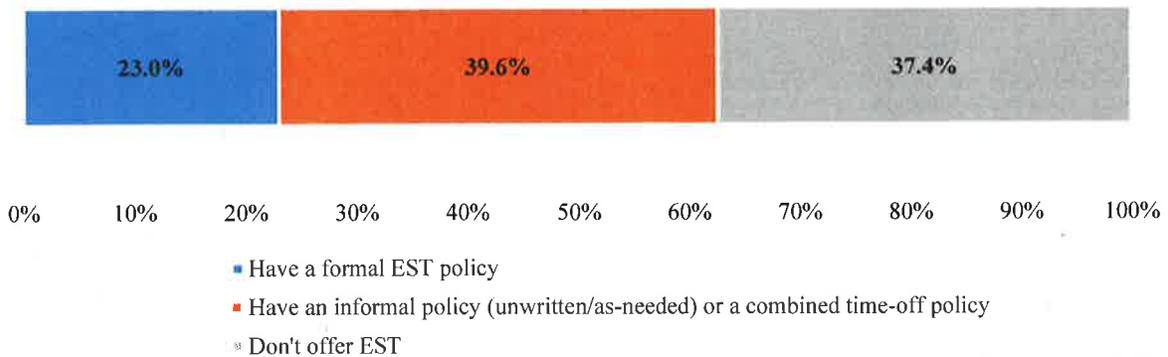


n = 3,355

At the time of the survey, most responding businesses (55%) did not understand or were not familiar with the EST law. Conversely, 23% of respondents reported understanding it somewhat, and another 11% of responding firms reported understanding the new law “very well”.

Sick-Leave Policy Breakdown

Figure 3: Count of employers with formal and informal sick-leave policies.



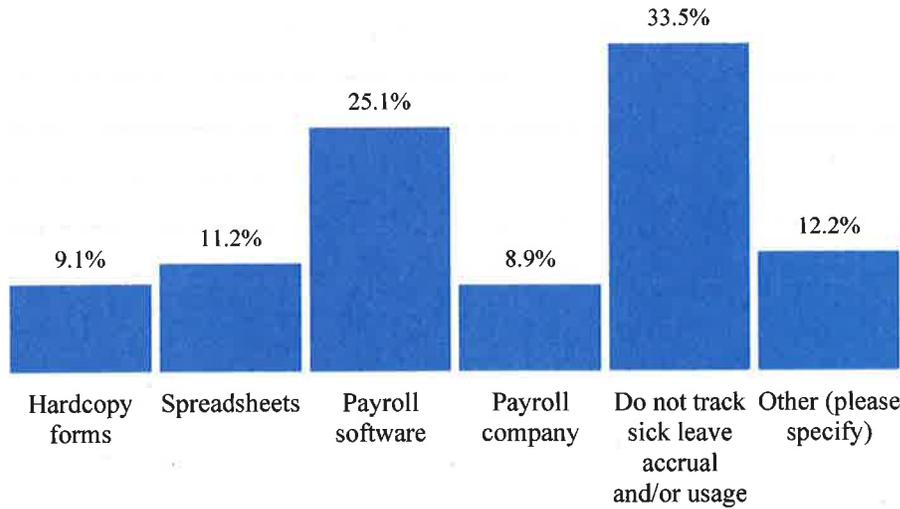
n = 3,307

Among small employers, informal approaches to sick-leave are common (39.6%). Small employers allow for these informal policies where a worker may ask for time-off with a fair reason or a combined policy where employees can draw from a single pool of time-off for various reasons without needing to specify. In addition to what is documented above in Figure 3, “as needed” approaches to leave time was frequently reported by participating employers in the comments section of the survey.

Sick-leave accrual tracking

The new law will require Vermont employers to track leave to ensure that their employees are receiving the legally mandated sick time. Approximately one-third of responding employers reported not tracking the amount of sick time provided to their employees.

*Figure 4: Percentage of employers by preferred leave-tracking method **



*among respondents who offer formal or informal earned sick time
n = 2,051

Employer Expectations

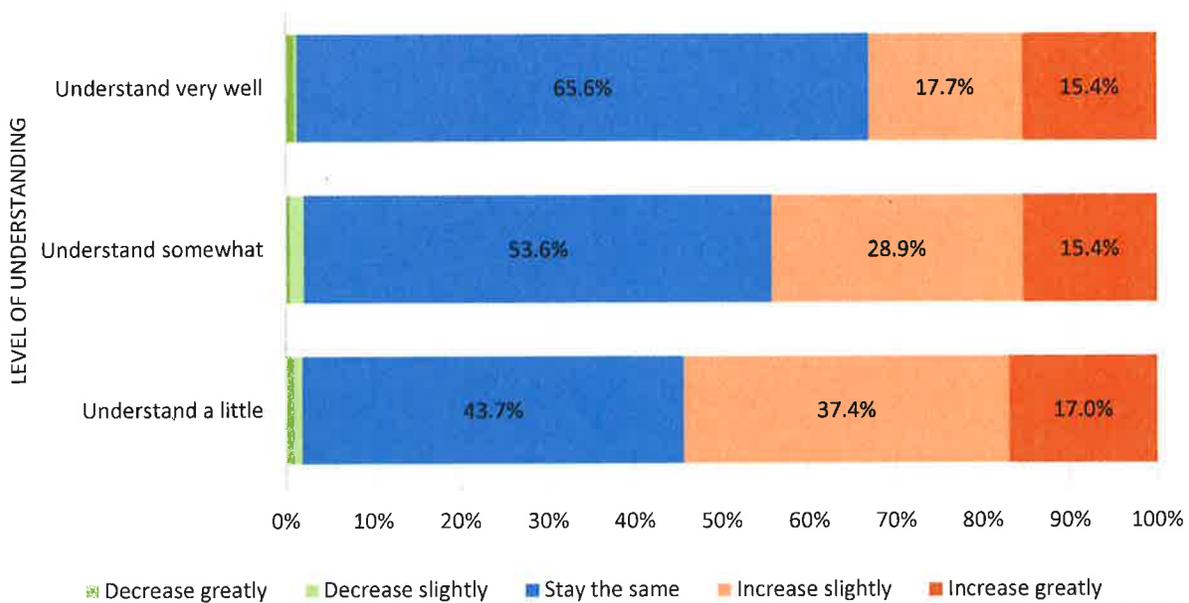
Table 4: Employer expectations after the implementation of the sick time law.

Percentage of Employers	Decrease greatly	Decrease slightly	Stay the same	Increase slightly	Increase greatly	Total Responses
Operational costs	0.7%	1.2%	55.3%	27.4%	15.5%	3,122
Employee productivity	3.6%	8.5%	83.8%	3.4%	0.7%	3,093
Employee morale	1.0%	1.6%	83.6%	12.4%	1.4%	3,093
Employee absences	0.8%	1.0%	71.4%	18.3%	8.4%	3,108
Employees sick on the job	1.7%	10.8%	80.1%	5.2%	2.2%	3,089
Employee turnover	0.6%	1.8%	94.1%	2.3%	1.2%	3,088
Disputes over leave time	0.8%	1.3%	85.0%	8.9%	4.0%	3,068

Regarding future expectations, employers reported “stay the same” at least 80% of the time for five of the seven categories (see Table 4 above). A significant number of respondents expected changes to operational costs with 27.4% of respondents expecting operational costs to increase slightly and an additional 15.5% expecting them to increase greatly. Additionally, 26.8% of participating employers expect employee absences to increase slightly or greatly.

It appears that as the understanding of the law increases (Figure 2 above) the expectation it will increase costs (Table 4) declines. Among those who report understanding the law very little, 54.4% expect it will increase costs. Among those who report understanding the law very well, only 33.1% expect it to increase costs as displayed in Figure 5 below.

Figure 5: Anticipation of operational cost change by reported level of understanding*



* Excludes employers who already offer leave to all of their employees and those with no understanding of the law
n = 1,317

Approximately 50% of all respondents indicated they do not anticipate increased costs as a result of the new law. Among employers that expect increased costs, the most popular response to the anticipated cost increase will be to reduce future pay raises (29.3%) or to increase prices (24.1%). The third most common option reported is to take sick-leave expenses out of profit margins.

Response to Changes in Costs

Table 5: Employers expected response to increased costs (multiple responses allowed)

Statements	Count of Employers	Percent
Smaller wage increases	877	29.3%
Increase prices (i.e. shift costs to consumers)	722	24.1%
Reduce profit margins	528	17.6%
Reduce weekly hours of employees	402	13.4%
Reduce other benefits	373	12.5%
Limit expansion within Vermont	358	12.0%
Decrease number of employees	336	11.2%
I don't anticipate increased costs	1,493	49.9%

Methodology

Surveys were distributed via email to all Vermont employers who had an average of ten or fewer total employees in 2015 according to the Quarterly Census of Employment and Wages (QCEW). This included 11,353 employers. It was sent on October 4th, 2016. The survey tool was available until the 17th of October, 2016. Three thousand eight hundred and fourteen responses were received, a response rate of 34%. For purposes of the analysis 450 responses were removed. These include 425 responses that were removed because they reported more than five full-time employees and therefore did not meet the definition of “small employer” as established by the Vermont Legislature. 25 responses were removed because they were from employers reporting they had ceased operation or would do so by the time the law goes into effect. This left 3,364 valid responses for analysis.

The distribution of responding employers by firm size is provided below. The law stipulates that those with five or fewer full-time employees are exempt from the law for a period of one year (until January 1st, 2018).

Table 6: Count of employers by number of full-time workers.

Full-time employees	Count of Employers	Percent
0	795	23.6%
1	1,051	31.2%
2	605	18.0%
3	416	12.4%
4	294	8.7%
5	203	6.0%
>5	425	11.2%
Total	3,789	100.0%

Table 7: Count of employers by number of part-time workers.

Part-Time Employees	Count of Employers	Percent
0	2,273	60.0%
1	783	20.7%
2	363	9.6%
3	160	4.2%
4	83	2.2%
5	52	1.4%
>5	75	2.0%
Total	3,789	100.0%

The industry composition of responses was generally reflective of the Vermont economy as a whole when considering firms with ten total employees or less¹. Professional, Scientific & Technical Services is the largest sector by number of firms. It was slightly under-represented, constituting 17% of the population in Vermont and 15% of our sample. The next largest sector by number of firms is Construction (14% of all firms), which was slightly over-represented with 15% of all responses. Retail trade was also slightly over-represented, constituting 10% of the population of study and 12% of our sample. Wholesale trade was the opposite: 7% of the study population and 5% of our sample. No other industry’s response rate varied from the known industry composition by more than one percentage point. While the industry distribution of the sample relative to the population is considered to be generally reflective of the Vermont economy, the survey results cannot be extrapolated to the population as other survey biases may exist.

¹This comparison is made using data from the Quarterly Census of Employment and Wages (QCEW) and related firm-size tables. While the survey was distributed to firms with 10 or fewer employees, this specific industry comparison is to firms with 9 or fewer employees as reported by QCEW.

Costs Associated with Mandatory Earned Sick Time

There are three categories of costs associated with adding sick time requirements to small businesses (5 or less full-time employees).

- Paying workers for time taken as earned sick leave.
- Operational costs to replace workers when they are absent during illness.
- Administrative costs to comply with the requirement.

Paying workers

Employers will have to provide wages to workers that are taking their earned sick time. For this analysis, we assume that the pay provided is in addition to the pay that is currently provided those workers during their paid attendance. Therefore, this calculation is a determination of the number of hours that will be taken as earned sick time that is greater than the currently provided paid sick leave.

The Vermont Department of Labor reports data on employment by size of employer. From that data, there are about 15,000 private employers covering about 25,000 employees (10% of total private employment) who fall in the group of 5 or fewer employees in Vermont. The total wages for this group amount to about \$1.1 billion annually.

The survey notes that slightly more than half of all employers with 5 or fewer full time employees offer earned sick time prior to the enactment of the legislation. An additional 18% provide some paid sick time. For this analysis, we assume that those that provide some sick time provide 50% of the required benefit. The remaining 32% of employers do not provide paid sick time. The wages for companies that provide earned sick time prior to this legislation will be greater than the wages for companies that do not currently provide sick leave. For these calculations we allocate somewhat more of the \$1.1 billion to the employers already providing earned sick time benefits.

When the legislation is fully implemented, there is a cap to the accrued amount of sick leave earned by workers of 40 hours or 5 days per year. The first year of the requirement has a smaller cap (24 hours, or 3 days). Assuming a 2,000 hour work year, 40 hours represents 2% of the annual total and 24 hours represents 1.2% of the total work hours. The earned sick time can therefore be considered to be a maximum increase of 2% of the workers' annual wage (if they take all of their paid leave). During the first year of implementation, this amounts to a maximum 1.2% increase of the current annual wage.

A report from the Joint Fiscal Office drafted to inform early iterations of the Earned Sick Time bill used several studies and concluded that workers use about 3.5 days of sick leave when provided an earned sick time benefit. This is two-thirds of the legislated requirement. Applying the 2/3 factor suggests that the average employer that currently provides no earned sick time will see an increase of about 0.8% of their wage requirement in the first two years of the

legislated change and 1.2% increase in future years when the 40 hour accrual requirement is implemented.

The 2,700 businesses that provide some earned sick time, but less than the legislated requirement will see less than half of the calculated increases. (Less than half based on the observation that the average worker takes less than the number of totals allowed under law.) The result will be less than 0.4% increase in the first year and less than 0.6% in future years.

	Employers	Employees	Annual wage	Annual increase based on law
Current coverage	7,500	12,500	\$650 million	\$0
Partial coverage	2,700	4,500	\$200 million	\$1 million
No coverage	4,800	8,000	\$250 million	\$3 million

Operational costs

Few small employers hire temporary workers for the small number of days that are covered under the earned sick time legislative requirement. It is possible that other existing workers will “pick up the slack” and in some, but not all cases, those workers will be paid for the hours not worked by the absent employee. In other cases, the work and therefore its value is left undone. In those cases, the dollar increases calculated above do not occur, but the business suffers a loss of worker output at least equal to the value of wages. In some cases, it is this loss of worker output that may be greater than dollar costs associated with paying earned sick time.

Administrative costs

One third of respondents to the survey report that they have no means to track earned sick time. An additional third use low tech methods that may not be satisfactory to comply with the law. Any modern leave tracking service will have additional benefits to facilitate payroll and tax filings. Software packages exist for small businesses that cost between \$100 and \$1000 per year. The use of these packages will also require some upfront costs for training. Assuming one third of all small businesses add software facilitated payroll, the total costs will be between \$0.5 and \$1 million per year.

Impacts of costs

The survey notes that businesses will use a mix of resources to cover their additional costs. Lowering future wage increases or other employer provided benefits, reducing hours, reducing business profit and increasing prices are the primary mechanisms.